ECONOMIC DEVELOPMENT COMMITTEE

DATE: February 1, 2006

CALLED TO ORDER: 5:05 p.m.

ADJOURNED: 5:49 p.m.

ATTENDANCE

ATTENDING MEMBERS	ABSENT MEMBERS
Jackie Nytes, Chair	Virginia Cain
Patrice Abduallah	
Lonnell Conley	
Marilyn Pfisterer	
Isaac Randolph, Jr	
Joanne Sanders	

AGENDA

PROPOSAL NO. 32, 2006 – reappoints George Pillow to the Indianapolis Economic Development Commission
"Postponed" until March 22, 2006 6-0

Discussion regarding the impact of the end of the Inventory Tax – presentation and testimonies will be heard

ECONOMIC DEVELOPMENT COMMITTEE

The Economic Development Committee of the City-County Council met on Wednesday, February 1, 2006. Chair Jackie Nytes called the meeting to order at 5:05 p.m. with the following members present: Patrice Abduallah, Lonnell Conley, Marilyn Pfisterer, Isaac Randolph, Jr., and Joanne Sanders. Absent was Virginia Cain. Representing Council staff was Bart Brown, Chief Financial Officer.

PROPOSAL NO. 32, 2006 – reappoints George Pillow to the Indianapolis Economic Development Commission

Chair Nytes said that Mr. Pillow could not attend the meeting tonight due to a previously scheduled meeting.

Councillor Conley moved, seconded by Councillor Sanders, to "Postpone" Proposal No. 32, 2006 until March 22, 2006. The motion carried by a vote of 6-0.

Discussion regarding the impact of the end of the Inventory Tax – presentation and testimonies will be heard

Chair Nytes said that this is the first of a series of discussions about how to deal with the impact of the end of the Inventory Tax. She said that the Committee was very interested in having this happen because it was a good thing to help businesses, especially as efforts are made to develop Indianapolis in the logistics industry. However, like all good things, there are consequences that require decisions on how to deal with them. She distributed a packet to the Committee (Exhibit A) of articles and research materials from the Internet that review why Inventory Tax was ended in Indiana and what was to be accomplished. She said that it was a notion of trying to create a more competitive business climate. But now the Council has a couple of options of how to deal with the impact of the loss in assessed valuation on the tax base.

Mr. Brown distributed a handout to be presented by himself and Bob Clifford, Controller. Mr. Brown's presentation highlighted the following keypoints:

- Total Assessed Valuation (AV) of the Indianapolis Police Service District represented by the shaded area of slide 1 and the Inventory AV for 2004 payable in 2005
  - 6.7% of all AV reported last year was inventory
- Total AV of the Indianapolis Fire Service District represented by the shaded area of slide 2 and the Inventory AV for 2004 payable in 2005
  - 5.5% of all AV reported last year was inventory
- Total AV for Solid Waste District, which is almost the entire county minus excluded cities and other conservatory districts, is displayed in slide 3
  - 4.9% of all AV reported last year was inventory
- Total AV for the Consolidated City, which is the entire county minus excluded cities and towns, is displayed in slide 4
  - 4.9% of all AV reported last year was inventory

- Total AV, broken down by townships, is represented in slide 5
    - The two with the highest Inventory AV for last year were Warren at 8.4% and Pike at 6.3%; the trend shall continue in 2006.

Councillor Randolph asked what is in Warren Township that would warrant the 8.4%. Mr. Brown said that he talked with Councillor Vernon Brown regarding this issue and was informed that there are quite a few dealerships along Shadeland Avenue; Visteon is in that district, the old GP plant that has a lot of warehousing, and a couple of malls. Although Eastgate is closed, they were still included in 2004 and 2005.

Councillor Nytes asked Mr. Brown to explain some of the townships and what is going on in their areas. Mr. Brown said that he is unsure of how all the Inventory is accounted for, but Wayne Township has Rolls Royce in its district, and Eli Lilly is in Center Township.

Councillor Pfisterer commented that she thinks that the AV for Wayne Township would be higher if the non-airline related businesses were put back on the tax role as they should be. Mr. Brown said that is a case throughout the county, as every county has non-taxable, tax exempt property, and he believes that Center Township and Wayne Township have the highest proportion on those with the Airport and Government buildings. Councillor Pfisterer said that her point is that there are a number of non-airline related businesses, such as fast food restaurants, car dealerships, daycare centers, etc., that are tax exempt because they happen to be on the property.

Chair Nytes said that it is interesting that non-airline related businesses enjoy the tax exempt status because of the land on which they are located. Councillor Pfisterer said that there have been a number of developments that have been built on airport designated land and are leasing to other companies. Even the leases are lower because of not being taxed. Chair Nytes asked if this is to stimulate development around the airport or because the airport wanted to have something happen on the land to hold it until they needed it. Mr. Clifford said that there has been quite a bit of time spent looking into that. He said that in the last ten years, the airport has purchased about $24 million worth of property. He said that he is unaware of any car dealers that benefit from the tax exempt status, but there is a fast food restaurant in question because it is on airport property. He said that he does not know of any businesses that are non-airport related that are inventory based.

Councillor Conley asked if the leases for five or ten years are a one shot deal or if continuations are allowed. Mr. Clifford said that they vary. The airport purchases land because of Noise Abatement and Federal law and the airport does not allow housing back on the land. The airport maintains the land to protect itself against possible future violations of Noise Abatements. He said that Garland Graves, Director of Administration, could probably better answer any questions regarding these issues.

Councillor Randolph asked how Inventory would be classified for the sake of this discussion. Mr. Clifford answered that it is finished goods. He said that in 2003 raw materials were rolled off of the assessed valuations as part of the restructuring. The

Legislature wanted to transition this, so it left finished goods AV to transition off in assessed 2006, pay 2007. Chair Nytes asked if this has been phased in its implementation. Mr. Clifford answered in the affirmative.

Mr. Clifford referenced Exhibit B, also distributed by Mr. Brown, and stated that the first page explains how much of the countywide levy is affected by the loss of AV. He said that it is currently a levy of about $61 million and how much it will affect the tax rate depends on which district and which taxing entity it is. [Clerk's note: A full printout of Exhibit B is on file in the Council office with the original set of minutes.] Mr. Clifford said that the second page of Exhibit B is a calculation of the Economic Development Income Tax (EDIT) rate that will be required to replace the increase in levy for homesteaders. He said that the loss of AV will essentially cause tax rates to increase for everyone else and, under existing State law, the Council is allowed to adopt this special EDIT rate to offset the impact of the shift of inventory and decrease the income tax to give a credit to homeowners. He said that it is estimated that the amount of the credit in will be about $16.7 million in 2006, which reflects a new income tax of about one-tenth of a percent. Mr. Clifford said that last year the County Option Income Tax (COIT) was allowed to increase to .8%.

Councillor Sanders asked if the tax rate applies to both businesses and individuals. Mr. Clifford answered that it is only individual income tax.

Chair Nytes asked if the point of the EDIT is to create a homestead credit to offset the amount of the increase that homeowners would have picked up, which would be the $16 million. Mr. Clifford answered in the affirmative. Mr. Clifford referenced the third column of Exhibit B, page 2, that has a box around it. He said that it is Inventory tax dollars and totals $53 million, of which tax payers actually pay for levy. He said that the difference between this $53.3 million and the $61.4 million on the first page is what the State pays to property tax replacement credits.

Chair Nytes asked if a community chose to deal with the change by simply letting the levy spread over the rest of the property tax base, if the State would still be responsible for paying its share. Mr. Clifford answered in the affirmative.

Councillor Sanders asked what the one-tenth of a percent of the EDIT generates. Mr. Clifford answered that it generates about $17 million.

Mr. Clifford said that the remainder of Exhibit B is a summary of the estimated tax rate that will be required from each of the taxing districts in the county. It essentially shows that there is between 2.9% to 8.9% increase in tax rates because of the loss of finished goods inventory as part of the AV. The numbers are based on the 2004 levy paid in 2005. Mr. Clifford said that House Bill (HB) 1001 of the Legislature will restrict an increase in residential tax rates to 3% except for debt service and construction. Therefore, some of the taxing districts may be restricted from going beyond 3%, which would have a detrimental impact to the City and the County. HB 1204 now has a provision that would create a homestead credit for renters. There is not a good estimate of how many renters there are.

Chair Nytes asked if there is anything in place to help offset businesses. Mr. Clifford answered that he is not aware of anything.

Kelly Bentley, Indianapolis Public Schools (IPS) Board, discussed information in Exhibit C (attached). She said that there are five property tax funds for Indianapolis Public Schools, but transportation operating is broken out from school replacement because one has a fixed rate and the other one does not. She said that the school pension debt service is also listed separately. Ms. Bentley said that Exhibit C illustrates the 2005 Calendar tax rate for each fund, the estimated AV loss, and the estimated levy loss. She said that the fifth column indicates whether or not IPS is able to raise the rate to recover the specific funds. However, the school funding formula for the General Fund will shift the responsibility to the State; as the AV goes down, the State portion goes up. Ms. Bentley said that the only two funds in which the rates can be raised are the debt service and school bus replacement, and the remainder reflects money that will be lost due to fixed rates.

Chair Nytes asked if this model would apply to all public school districts in Marion County. Ms. Bentley answered in the affirmative but stated that township schools probably will not have as much of an impact because they will experience a lower percent loss of AV. However, Pike and Warren may be impacted on a higher level due to their percent loss of AV.

Chair Nytes asked if there is anything about the distribution of the EDIT to assist schools. Mr. Brown answered that there is nothing to help replace what is lost.

Jeff Conrad, Indy Partnership, said that it was discovered that the Inventory Tax was considered an archaic type of technique, as many states had wiped out the technique and some replaced it with more diverse techniques. He said that as Indy Partnership visited 400-500 of the existing businesses, they asked how the businesses would be impacted by the Inventory Tax. He said that concern depended on the industry cluster and industry structure of the company. For example, in 2002 Reebok bought out Athletic Indy Partnership and met with the new company to retain the business. The buyers were looking to move the company to Nashville, Tennessee as part of their strategy. He said that there were two key factors: one was the discussion of eliminating Inventory Tax, which would make a huge impact on the company's ability to do business in Indiana and compete with other markets; second was the company's workforce. There were 500-550 trained employees on the Eastside of Indianapolis, which helped influence the company to stay in the original location, and it is prospering at about 900 full-time employees.

Mr. Conrad said that when Indy Partnership talks to site consultants, there will be requests for certain types of opportunities, and some of the consultants indicate that the end of Inventory Tax is a key factor. The site consultants are very influential in the way that opportunities are assessed for clients. Mr. Conrad said that many companies wanted to know what needed to be done with regard to the end of Inventory Tax in Indianapolis. These companies were concerned about what their state and local tax liability will be regarding operating costs. He said that it may not have a huge impact on all industries, but the non-retail driven companies will be impacted. Indy Partnership believes that it will be a positive venture with respect to the thrust on motorsports. He said that although the inventory on motorsport equipment is not usually vast, it is extremely expensive and highly assessed because the value associated with the items is unique. Therefore, the end of Inventory Tax can be used as a sales tool and will hopefully create new investment due to liability not being placed directly upon companies. Some existing businesses, if in growth or potential relocation mode, must be considering the end of Inventory Tax in their overall operating costs. Mr. Conrad said that Indy Partnership visited about 50 companies in three days at the end of 2004, and the companies that had a large capacity of inventory were excited about the end of Inventory Tax. Companies that were more on the technology or Information Technology and Life Sciences side were more interested in the time zone issue.

Councillor Abduallah asked what incentives or tools may attract other businesses while also returning dividends to Indianapolis. Mr. Conrad said that the goal is to look at the overall economic impact; direct, what the company will create by the opportunity of purchasing additional goods and services; indirect, what a business benefits from buying from another business; and consumer related, the benefit of a company hiring 100 people resulting in disposable income for consumers to go back and spent. Mr. Conrad said that another incentive reflects if there is an opportunity for a company's business to grow, retain, and expand.

CONCLUSION

With no further business, and upon motion duly made, the Economic Development Committee of the City-County Council was adjourned at 5:49 p.m.

Respectfully Submitted,

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Jackie Nytes, Chair

JN/nsm